LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6867
BILL NUMBER: SB 462

DATE PREPARED: Feb 23, 2002
BILL AMENDED: Feb 21, 2002

SUBJECT: Property Tax Benefits for High Impact Business.

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FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill establishes a high impact business commission consisting of the Lafayette common council and the Tippecanoe county council. It allows the commission to designate one business as a high impact business and to grant a property tax credit for the business's inventory for ten years. The bill requires a business to commit to investing at least $50,000,000 and retaining at least 1,600 jobs at its facilities located in Tippecanoe County and Lafayette to be designated as a high impact business. The bill also requires a high impact business to continue operations at its facilities in the city and the county for at least 20 years and to comply with a statement of benefits to result from its investment.

This bill provides for the termination of the tax credit, the recapture of tax revenues, and penalties for a failure to comply with the statement of benefits or for ceasing operations at those facilities. The bill also provides that the inventory tax refund does not take effect until at least 80% of Indiana business do not pay inventory tax.

Effective Date: July 1, 2002.

Explanation of State Expenditures:

Explanation of State Revenues: (Revised) The State levies a small tax rate for State Fair and State Forestry. The credit contained in this bill would reduce the revenue for these two funds by $4,000 annually.

Secondary Impact: Since the bill requires the targeted impact business to commit to a $50 M investment and retention of jobs, income and sale tax revenue will be positively impacted. Income and sales tax revenue is deposited in the General Fund, the Property Tax Replacement Fund, and a few smaller dedicated funds.

Explanation of Local Expenditures:

<u>Explanation of Local Revenues:</u> (Revised) Under this proposal, a High Impact Business Commission would be formed and would be permitted to allow a credit against one taxpayer's inventory property tax liability for a period of ten years beginning in the year after at least 80% of Indiana business do not pay inventory tax. The inventory on which the credit would be based includes inventory from existing operations as well as inventory from any expanded or new operations. The high impact business held inventory with an assessed value of $20.5 M ($61.5 M in 2002 terms) for the 2000 Pay 2001 tax year.

Estimation Issues: There are several factors that will affect the amount and timing of the impact of this credit. ***First***, the new real and personal property assessment rules that take effect with taxes paid in CY 2003 will cause the tax liability on inventory to change. Inventory will no longer receive the 35% valuation reduction adjustment that was in place through the March 1, 2001, assessment date. Also, the higher assessments of real and personal property will result in a property tax rate reduction. Overall, the elimination of the 35% adjustment and the lower tax rates will reduce the property tax on inventory by an estimated 5.7%, statewide. The ***second*** factor is the amount of inventory that the taxpayer will continue to possess from current operations and the amount of inventory held because of any new operations. The high impact business estimates the level of inventory from new operations at roughly the same amount as the current operations level ($60 M), thereby doubling the amount of held inventory. The **third** factor is the requirement that at least 80% of Indiana business must be inventory tax-free before the credit may be granted. The inventory tax liability of the high impact business could be affected by a program that would eliminate the property tax on inventory from 80% of Indiana businesses. If such a program reduces the targeted taxpayer's liability, then the cost of the credit in this bill would be less than the estimates below.

Impact: The actual fiscal impact of this proposal will depend on the above factors, taxpayer action, and local action. This analysis did not consider whether or not current taxpayer operations would continue without this measure. This credit would be locally funded which means that property tax collections would be reduced by the amount of the credit each year.

As an illustration only, an analysis was performed to determine the impact to taxpayers and taxing units if the credit had been granted for the 2000 Pay 2001 tax year. The credit would have caused a total $1.7 M revenue reduction for the units that serve the taxpayer. If the taxpayer's inventory is doubled, then the actual revenue loss could be twice the amount of the example, depending on other factors.

<u>State Agencies Affected:</u>

<u>Local Agencies Affected:</u> Lafayette Common Council; Tippecanoe County Council; Tippecanoe County Auditor; Civil taxing units and school corporations in Tippecanoe County.

<u>Information Sources:</u> Local Government Database.